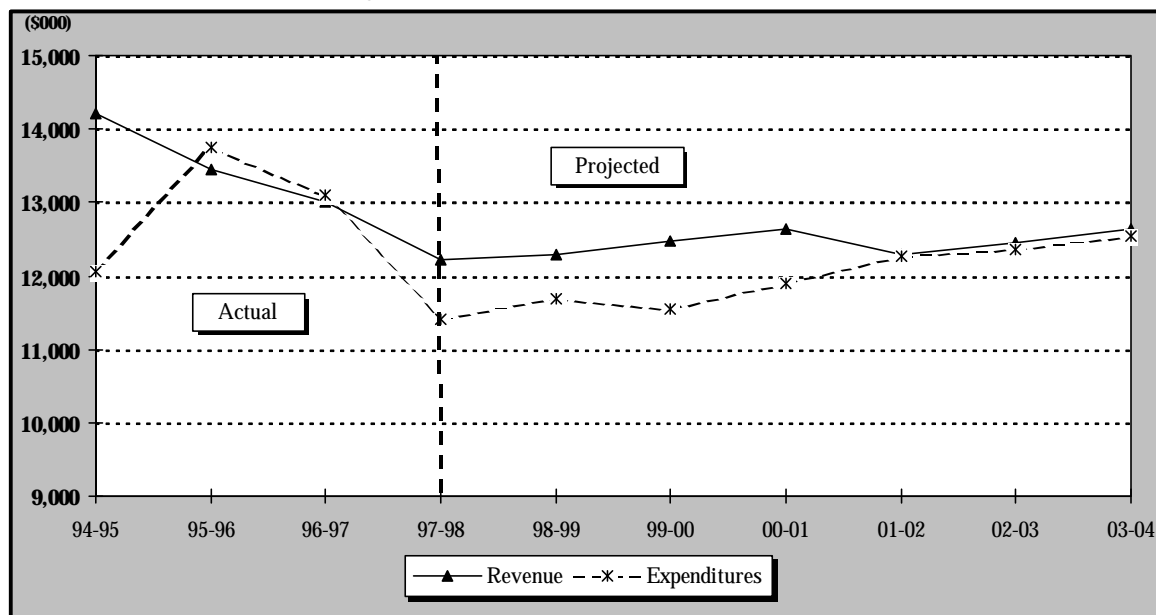




Transportation Funds: Projected Revenue and Expenditures



	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
Revenue (\$000)										
Highway User Revenue Tax	9,436	10,239	9,788	9,684	9,800	9,986	10,176	9,820	10,006	10,196
State Lottery Proceeds	1,108	1,089	1,081	1,020	950	938	926	914	902	890
ASU-Flash Transit	307	250	265	0	0	0	0	0	0	0
Maintenance of Effort Transfer	3,350	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Lottery Transfer to Transit	0	0	0	(340)	(316)	(309)	(305)	(302)	(298)	(294)
Other Revenue	15	29	23	14	0	0	0	0	0	0
Total Revenue	14,215	13,457	13,007	12,228	12,284	12,465	12,646	12,282	12,460	12,643
Expenditures (\$000)										
Personal Services	2,604	2,727	2,850	2,903	2,902	3,119	3,306	3,497	3,699	3,914
Materials and Supplies	443	521	546	509	557	581	607	634	663	693
Fees and Services	1,512	1,721	1,611	1,455	1,481	1,531	1,583	1,636	1,692	1,749
Travel and Training	4	8	5	0	0	0	0	0	0	0
Capital Outlay	511	407	291	351	269	280	293	306	320	334
Debt Service	4,137	4,720	4,726	4,814	4,500	4,000	4,000	4,000	3,700	3,500
Transit Routes/Dial-A-Ride	994	1,179	1,377	0	0	0	0	0	0	0
Loan Repayment	182	356	356	356	356	356	356	356	356	356
Internal Service Charges	614	556	460	473	681	710	742	775	810	847
Indirect Cost Allocations	1,067	1,557	890	546	935	974	1,018	1,064	1,112	1,162
Total Expenditures	12,066	13,751	13,112	11,407	11,681	11,551	11,905	12,269	12,352	12,555
Net Operating Surplus/(Deficit)	2,149	(294)	(105)	821	603	914	741	13	108	88



Transportation Funds

Fund Structure

Description

The Highway User Revenue Fund (HURF) and the Local Transportation Assistance Fund (LTAF) are Special Revenue funds that comprise the City's Transportation funds. They have been established to account for the receipt and expenditure of Tempe's allocation of state-shared Highway User taxes and state Lottery funds.

Major Services

- Studies and Design
- Operations
- Traffic Lights and Signal System
- Street and Field Maintenance
- Planning

Revenue Structure

Transportation revenues are derived primarily (79.8%) from state-shared Highway User taxes. State Lottery proceeds account for 7.7% of Transportation revenues, while a transfer of General Fund monies required by state law (Maintenance of Effort) comprises the balance of Transportation funding.

■ Highway User Tax

Highway User revenues come primarily (55%) from the fuel tax (currently \$0.18 per gallon), with the remainder from motor carrier fees (16%), vehicle license taxes (14%), vehicle registration fees (11%), and other transportation-related fees (4%). Estimates for FY 1998-99 indicate that the total pool of HURF revenues to be shared by cities will be \$255.3 million, with Tempe's share at \$9.8 million. Experience has shown, however, that state projections for HURF revenue have not proven reliable. In short, HURF revenues are subject to state policy changes, fuel sales, and population growth, all factors beyond the City's control.

Pursuant to state statute, HURF monies can be used only for street and highway purposes, including right-of-way acquisition, construction, reconstruction, maintenance in the public right-of-way, and payment of debt service on highway and street bonds. HURF funds may not be used for transit programs. The outlook for HURF revenues is for gradually declining distributions to Tempe as our relative share of total statewide population falls.

■ Lottery Proceeds

Lottery proceeds (Local Transportation Assistance Fund or LTAF), including Powerball revenue, are expected to be \$950,000 in FY 1998-99, which represents a slight decrease from the prior year, a trend that is likely to continue as long as Tempe's population growth remains below other cities. The distribution of Lottery funds is based on population, with all cities and towns receiving at least \$10,000. A \$20.5 million minimum total distribution pool is guaranteed to cities and towns. State law limits the distribution pool to a maximum of \$23 million.

Cities benefit from Powerball revenues only after a minimum amount of receipts are first collected by the state. Pursuant to state law, after the state Lottery director determines that deposits to the state general fund



from all Lottery revenues have reached \$21 million, a maximum of \$18 million is to be paid to the LTAF from Powerball revenues for distribution to cities, towns and counties. The \$18 million statewide pool is divided into county pools based on each county's market share of Lottery ticket sales. Actual distributions to cities and towns are based on their share of the incorporated population within the county.

Generally, LTAF proceeds can be used only for street and highway projects such as construction or reconstruction in the public right-of-way. However, for cities in counties with populations of 1,200,000 persons or more, one-third of Lottery revenues must be allocated to public transit (A.R.S. §28-2502 (F)). Thus, the forecast reflects the transfer of funds from Transportation funds to the Transit Fund.

■ Maintenance of Effort

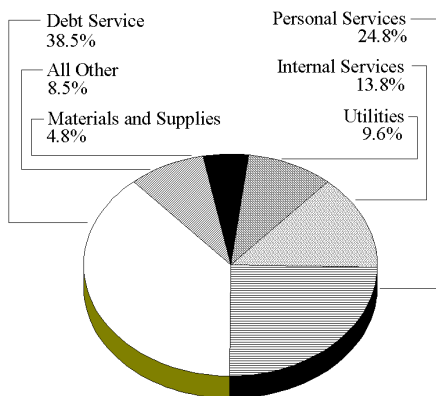
In addition to state-shared revenue sources, Transportation derives its remaining revenues from a "Maintenance of Effort" transfer from the General Fund. This transfer of locally-generated funding fulfills the statutory requirement placed on Arizona cities to maintain the expenditure of local revenue for streets at a level computed as an average of local funds expended for any four of the fiscal years 1981-82 through 1985-86. That obligation is calculated at \$1,850,705.

Expenditure Structure

Transportation funds include all personnel in Streets (Street/Field Maintenance). Major budgeted expenditures for the Transportation funds include: Debt Service (38.5%), Personal Services (24.8%), Internal Services (13.8%), Utilities (9.6%), Materials and Supplies (4.8%), and All Other (8.5%).

■ Debt Service

The largest FY 1998-99 budgeted expenditure in the Transportation funds is for Debt Service, which amounts to \$4.5 million, plus \$356,175 for a loan repayment to the Water/Wastewater fund, or 41.6% of the \$11.7 million total budgeted expenditures. Debt Service will continue to be a major expenditure in this fund for the next five years, ranging from



28% to 42% of total fund expenditures. Unfortunately, one important downside to the large Debt Service is that it reduces the capital improvement capacity for transportation pay-as-you-go financing which would normally be funded by any net surpluses in this fund.

■ Personal Services

Personal Services account for 24.8% or \$2.9 million of the total FY 1998-99 Transportation budget and will likely continue in that range for the next few years. By FY 2003-04, Personal Services costs are expected to exceed \$3.9 million or 31.1% of a total budget near \$12.7 million.

■ Internal Services and Utilities

Additional expenditure demands in the Transportation funds are for Internal Services and Utilities. Internal Services costs (communications, information systems and vehicle maintenance) represent 13.8% or \$1.6 million of the FY 1998-99 budget. Utility costs (electricity for street lights and traffic signals) account for another 9.6% or \$1.1 million. The remaining expenditures are for Capital Outlay, Materials and Supplies and Contracted Services. These costs will be driven largely by inflation over the next five years.

Summary

Expenditures for Transportation increased from \$11.4 million in FY 1997-98 to an estimated \$11.7 million in FY 1998-99. As in FY 1997-98, the FY 1998-99 adopted budget does not include any appropriation of LTAF funding in the Transportation Fund. Rather, the amount of LTAF funding not transferred to the Transit Fund will be allowed to accumulate in the fund for future uses.

Total FY 1998-99 Transportation revenues are projected at \$12.3 million, a 0.5% increase from actual FY 1997-98 revenues. Although we are estimating some growth in revenue, that growth will be minimal at best. With population being the primary determinant for the distribution of state-shared HURF and Lottery revenues, Tempe's slower population growth relative to other cities will result in a diminishing share of these revenues for Tempe.

Trend/Forecast

Small surpluses are expected through the forecast period, although unforeseen circumstances could easily push this fund into a deficit condition. We have already witnessed a reduction in our allocations of HURF and Lottery revenues resulting from Tempe's declining share of statewide population. We expect that the results of the 2000 census will further worsen the situation, contributing heavily to the problems we are forecasting for this fund. With only small surpluses projected over the period of the forecast, limited resources will be available to address transportation capital project needs.

One approach now in place to minimize operating deficits is to limit debt service payments to established caps (\$4.5 million in FY 1998-99, down to \$3.5 million by FY 2003-04). Any excess General Obligation debt service requirements beyond this cap will be absorbed in the Debt Service Fund. Over the longer term, we will need to monitor the level of General Obligation tax-supported debt applied to Transportation projects and the resulting impact on the Debt Service Fund, being aware that opportunities for pay-as-you-go financing of capital projects will be limited.



Fund Balance

Transportation Fund balances have recovered somewhat from the lows experienced a few years ago, although the fund may never recover to its pre-1990 condition. Maintaining an adequate fund balance for contingencies and transfers for capital projects will become a difficult challenge with virtually no revenue growth. No relief on the expenditure side can be found as the cost of inflation and debt service requirements appear to be factors that will be with us at least throughout the forecast period.

FYE	Unreserved Fund Balance
89	\$6,982,690
90	1,468,390
91	1,998,713
92	1,235,139
93	1,002,647
94	2,127,532
95	3,686,673
96	3,300,576
97	3,326,715
98.	4,092,879
99 est.	4,064,162